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CANADIAN GENERAL ELECTRIC COMPANY LIMITED

214 KING STREET WEST, TORONTO 1, ONTARIO - EMPIRE 6-7311

October 10, 1963

The Chairman and Members,
The Ontario Committee on Taxation,
88 University Avenue,
Toronto 1, Ontario

Gentlemen:

Canadian General Electric Company, Limited welcomes this opportunity of presenting its views on certain matters included on the program of study and research which is to be carried out by The Ontario Committee on Taxation in accordance with its terms and reference. In this submission we have confined ourselves to a statement of our views on the matter of municipal taxation.

Canadian General Electric Company, Limited is represented in twenty-seven municipalities in Ontario. During the period from 1958 to 1963 inclusive, municipal tax payments to those municipalities have been made in the following amounts:

1958	$1 385 582
1959	$1 443 122
1960	$1 488 341
1961	$1 555 509
1962	$1 607 277
1963	$1 719 789

The reason for the Company's concern over these matters will, therefore, be evident.

As a preface to the main body of our remarks, we would like to briefly summarize the points we will be making:

1. The number, kind and standard of services provided by municipalities fall into two distinct groups; firstly, those services to property such as water, sewers, roads, fire protection, etc., and secondly, those provided to persons such as parks, education, welfare, justice, etc. Property owners should pay for services to property but services to people should be paid by those receiving the benefits. This will require some changes to be made in revenue-producing sources from which the funds to finance these two separate services are drawn.

2. The widening gap between the mill rates levied on commercial and industrial taxpayers and the rate levied on residential taxpayers created by Provincial grants to municipalities represents an inequitable situation and one which should be corrected.

3. The business tax provisions of the present Assessment Act are based on archaic principles and prejudice. Re-adjustment of the differential rates within the present schedule does not present a solution. This section of the Act should be scrapped and it is our recommendation that an entirely new base-rental values - should be used to product an equitable business assessment.

4. The provisions of the revised Manual of Assessment Values which we understand is to be issued shortly by the Department of Municipal Affairs should be flexible enough to permit equitable assessments of properties for which, because of their very nature, there is not available the normal criteria required by the assessors to establish "actual value".

5. We support measures designed to provide training facilities for assessors and to raise the standards demanded of those engaged in assessment work.

6. We support the recommendation that it should be optional with municipalities as to whether certain properties should be exempted from municipal taxation. We further recommend that properties such as cemeteries, which are organized as a profit-making enterprise, and incorporated charitable institutions operated for profit should not be considered for tax exemption.

7. We strongly feel that there is a need for more business-like planning for local needs at the municipal leve. For all of Canada, municipalities were responsible for spending in 1960 (latest statistics available) about $106 per capita - that is every man, woman and child - compared with $32 in 1945 and approximately $78 in 1956. On this basis in 1960, Ontario municipalities spent the most money at $132 per head of population. Expenditures of such large sums of money cannot

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and must not be treated lightly. It is imperative that realistic planning be made a prerequisite of municipal development so that in the face of restricted revenue sources, the municipality may develop as a financially as well as a functionally sound unit.

8. In summary, the points listed above are of vital concern to Canadian General Electric Company, Limited since, as a manufacturer, taxation is a key determinant of our ability to compete with foreign goods at home and abroad. We are seriously affected by the tendency of provinces and municipalities to discriminate against industrial and commercial taxpayers in the field of municipal taxation.

It is against this background that the following submission is advanced.

Introduction

May we make clear at the outset, that we recognize, but do not necessarily accept, certain principles with respect to property assessment and taxation:

1. Today property taxes are accepted as the traditional means of revenue raising at the local level and such well-established tradition will not be easily altered.
2. The main advantages of the property tax lies in the fact that the base is clearly defined and the tax is relatively easy to administer and to collect. In addition, real property cannot be easily moved and hence the base itself is stable.
3. The business tax has been justified by the premise that business enjoys special privileges arising from the fact that it is dependent upon the community and its institutions for an economic environment which enables it to carry on its activities, and the existence of the community, its institutions, and, to a large degree, the facilities for doing business are, in turn, dependent upon the local services. Furthermore, some of these services - such as police and fire protection, traffic control, street maintenance, and others, are more costly because of the special requirements of business. Finally, and this appears to be a major consideration, the

business tax broadens the municipal tax base, yields relatively large and certain revenues and is easy to administer.

May we also make clear at this point that we do not accept, and in fact strongly oppose, two other tenets that have over the years gained acceptance with respect to municipal taxation as it applies to business enterprises, namely:

1. "In the case of commercial and manufacturing enterprises, the corporate taxpayer is able to recover the cost of municipal taxes through the prices charged for his goods."

   It is claimed that the costs of such taxes are thus shifted forward onto consumers, and this ability to pass such costs on to consumers has been used to justify the heavier proportionate burden of taxes levied on commercial and manufacturing taxpayers.

   Any such shifting of taxes results in the hiding of tax costs from the consumer who ultimately bears them. The consumer is under the impression that he has discharged his tax liability when he has paid his own share of municipal taxation. Any tax shifted to the consumer in the price charged for the goods is concealed in the price, and thus doubly assumed by the purchaser.

   It is true that considerable tax shifting is possible under buoyant economic conditions, particularly with respect to domestic sales. Insofar as the electrical manufacturing industry is concerned, buoyant economic conditions have not existed for some time and hence any possible tax shifting on domestic sales has been rendered very difficult.

   The ability of industries to shift increases in municipal taxes in the prices charged for their exports is much more restricted particularly in view of Canada's current foreign competitive position. The very marked increase in the property and business taxes levied on the Company over the period covered in the tabulation given above has contributed greatly to the problems it has faced in establishing a position in the export field.

It would seem somwhat contradictory that a restrictive pattern of heavier municipal taxation on business enterprises should be allowed to exist when, at the same time, vigorous efforts are being made to increase overseas markets and sharpen the competitiveness of Ontario industries.

2. "Business firms are allowed to deduct municipal taxes as an operating cost for the purpose of computing income tax and hence the burden does not rest as heavily on such firms as it does on individual property owners who are not granted such privilege."

This principle has frequently been advanced as justification for the disproportionate burden of municipal taxes being imposed on commercial taxpayers. This is a vast oversimplification of the matter. As has been pointed out previously by the Canadian Manufacturers Association in a protest against the introduction of the differential feature in the property tax, although the tax is an expense, it nevertheless reduces net income. The effect of such reduction is to create an added deterrent to capital investment in the province and in the rest of the country.

The above proposition assumes further that all business firms have profits available from which to deduct the cost of municipal taxes. This is decidedly not the case. According to "1962 Taxation Statistics" issued by the Department of National Revenue, for the taxation year 1960 (latest year reported) there were 97,549 active taxable companies in Canada. Of this total, 33,449 or 34.3% reported a loss. The high rate of business bankruptcies further illustrates the fallacy of the principle.

The specific points on which we wish to comment are the following:

1. The Benefit Theory of Taxation

We support the contention that property taxes should be used to pay for only those services which benefit property directly or indirectly and that taxes on persons should be used to pay for services that benefit people.

In considering this proposition the Alberta Royal Commission on Taxation, 1948 made an accurate assessment of the problems inherent in such approach:

> "Not only is there the difficulty of separating property benefits and personal benefits, it should also seem evident that only persons pay taxes, and in the final analysis, only persons derive benefits. The benefits of collective services are widely diffused, and no precise lines can be drawn as between the different services, and as to the proportions of benefits accruing to persons and to property even if one assumes that there is a valid distinction between personal and property benefits. If one pursues the benefit principle to the limit with respect to persons (who make use of property in various ways) then one would be charging these persons in accordance with benefits received, if the benefits could be determined. It also implies that persons could refuse to take the benefits concerned to avoid payment; this is not possible in the case of collective services. One of the functions of government is to provide certain collective services which cannot or will not in themselves be bought and sold by individuals."

Recognizing these problems, there is nevertheless reason to question the justification of a system that places a relatively heavier burden on the commercial and industrial taxpayer. The Unconditional and School Tax Assistance Grants, accompanied by differential mills rates, have reduced the burden on residential property owners for such services as health, welfare and education----services that are not properly a charge against property. In these instances and in others, unless it can be shown that municipal expenditures are any greater for commercial and industrial properties and taxpayers than for other types, a disproportionate burden of taxation is inequitable. It must be also shown that business fails to contribute as

much in municipal taxes as it consumes in municipal services before a heavier share can be justified.

The removal of the differential in the residential and commercial mill rates would represent one acceptable corrective insofar as the cost of municipal services, other than education is concerned.

As further correctives we recommend a close examination of non-property taxes available to the municipality. In considering any few form of taxation consideration must be given to the potential revenues, the cost of collection and the economic impact of a new tax, and the principle that non-property owners should contribute to the civic services they enjoy should be kept at the forefront. New revenue sources which should be considered are:

Hotel room tax

Motor vehicle tax

Municipal income tax

Sharing in provincial retail tax

A more comprehensive solution would appear to be necessary in the field of the cost of education. The proportion of the total municipal budget assigned to this cost has undergone a steady increase over recent years. With the limited tax base available to municipalities, this has meant substantial increases in the mills rates and again a disproportionate levy being placed on commercial and industrial taxpayers. The province is responsible for education and makes it mandatory that certain standards are maintained in local schools. It is logical that a large slice of the educational bill should be borne by the province, as indeed it now is. Nevertheless, it is becoming apparent that a greater proportion of such costs must be borne by the provincial government. Such grants should be regarded as payments for what is no longer a matter of local interest alone but one of vital national concern.

As one practical means to this end, we suggest that the provincial government might consider assuming the costs of capital financing of schools.

2. Unconditional Provincial Grants

In Ontario, provincial grants to municipalities have discriminated in favour of residential and farm property. The first of these was established in 1957 when Unconditional Grants were paid to municipalities on condition that the annual levy against residential and farm property owners be reduced by an amount equal to the grant. In 1962 the Unconditional Grant

to Metropolitan Toronto resulted in a differential of 3.7 mills between residential rates on the one hand and industrial and commercial rates on the other. In announcing the Government's policy in respect of these grants, the Provincial Treasurer in his 1957 Budget Statement made the following remarks:

> "In the past, Provincial unconditional grants have been applied so as to effect a reduction in the general tax rate on all real property. They have benefited industrial and commercial property equally with residential property. The owners of industrial and commercial properties, however, have been able to charge their municipal taxes as an expense of doing business and to deduct them from their taxable income before computing corporation income tax. Thus, in general, the net cost is only about one-half of such taxes. On the other hand, the taxpayer who owns his own home does not enjoy this advantage. To him, the cost of the municipal property tax is a net cost. There is no opportunity for him to secure a partial offset or recovery under corporation income tax.
>
> "To meet this situation, the Province's unconditional grants will be applied to benefit residential and farm taxpayers only."

Our opinion of the speciousness of this line of reasoning has been stated above.

The position of the commercial and industrial taxpayer was rendered even more difficult when in 1961 the School Tax Assistance Grants, having substantially the same effect as the Unconditional Grants, were introduced. In order to qualify for the School Tax Assistance Grant, residential mill rates for public (and, in 1963 secondary) school supporters must be reduced by 10 per cent below commercial and industrial rates. The grant is intended to compensate school boards for the loss of tax money from the reduction in residential mill rates.

In 1956, before the introduction of differential mill rates, all taxpayers in the City of Toronto, both residential and commercial, paid 47.25 mills on their property assessments. In 1963, while residential taxpayers were paying 65.2 mills, commercial and industrial taxpayers were being charged 72.59 mills. A differential of more than 7 mills has opened up in the space of seven years.

The effect of this differential is compounded when it is realized that industrial and commercial taxpayers must pay business taxes as well as realty taxes.

The inequity of the situation is obvious and action to correct the situation is overdue.

3. Business Taxes

The major consideration in the levy of a business tax is that it broadens the municipal tax base, yields relatively large and certain revenues, and is easy to administer.

The business tax, as introduced in Ontario in 1904, has remained practically unchanged through the years. It is assessed on a graduated scale which varies from an addition of 10% on the property assessment of supervised car parks to 150% on the property assessment of distillers. It is levied against occupants of commercial property, either owners or tenants, and is an additional charge to normal property taxes.

We contend that the differential rates presently in use under the Ontario business tax provisions are based on archaic principles and prejudice. There is no rhyme nor reason nor equity in these rates. There may have been in 1904, but there is not today. The most important factor to note, however, is that it would be virtually impossible to make these rates more equitable because it is just as impossible to substantiate with provable evidence a claim for alteration as it is to justify the rates as they now stand. As long as this section of the Assessment Act prevails, we do not believe that its business tax assessment provisions can be improved. We take the position that these provisions should be scrapped and the whole section rewritten. The most acceptable basis for such revision, in our opinion, would be the use of rental value, with a single flat rate to apply to all businesses.

It is our contention that there is a definite advantage to be gained in using rentals rather than assessed values as the basis for business assessments. The determination of property value whether for local tax assessment or for any other purpose should be based on market data which are as up-to-date as possible. Market data cover both sales prices and rentals. Usually where business properties are concerned, sales prices are few and far between, whereas rental statistics are much easier come by. This is particularly true in the commercial property field but not so true in the case of industrial properties, although it

would appear that a more accurate estimate of a rate per square foot for renting industrial property could be obtained more readily than could a quotation of a reliable selling price. If there is more rental information than sales price data available it is fairly safe to conclude that the use of rentals would result in a more accurate and realistic base of business assessment than if a few scattered market value statistics were used. There is one further advantage. If assessors had to use current rental information for the determination of the business assessment, they might be encouraged to incorporate into their calculation of property assessments the invaluable information that they would gain from rentals.

If this change in the business tax provisions were made, the enabling legislation should be so worded that business assessments would have to be based on actual rentals of no more than two years in the past. If this were done, and if one flat tax rate were levied on all business assessments, we feel that the results would be much more equitable than those obtained under the present system.

4. "Actual Value"

The Assessment Act requires assessors to value property at its "actual value". The Supreme Court has defined this to mean market value as decided between willing buyers and willing sellers, none of whom is acting under any form of coercion. A guide to the worth of the greater majority of properties that an assessor will be called upon to value can usually be found by studying sales of similar properties. But no assessor, however well qualified, should be expected to consider market value in the case of properties for which only a very restricted market exists. Properties such as grain elevators, service stations and complex manufacturing plants seldom, if ever, sell on the open market as going concerns.

It is noted earlier that one of the advantages of the property tax was that since real property cannot be easily moved, the base itself is relatively stable. This very feature, however, may present a disadvantage to the taxpayer. For example, due to the stability of the base, an owner may be forced to continue to operate in an unsuitable building or even in an unsuitable area because he cannot dispose of his obsolete property. The inelasticity of the tax can also wreak hardship on a business in times of low business activity.

We understand that a revised Manual of Assessment Values will be issued shortly by the Department of Municipal Affairs. We strongly urge that provision should be made in this Manual to permit a board of leading assessors, appraisal experts and tax officials from the kinds of business organizations mentioned above to be set up with the object in view of deciding upon a means of valuation and of preparing actual rates which would produce equitable assessments comparable with those which could be more accurately established by market data.

5. Qualification of Assessors

No matter how scientific the method of assessment may be, the fact remains that property valuation relies very heavily on the personal judgment of the assessor. This in itself can be of vital concern to the owners of complex manufacturing facilities unless all those officials engaged in this difficult task are adequately trained. We, therefore, strongly support any measures designed to provide training facilities for assessors and to raise the standards demanded of those engaged in assessment work.

6. Exempt Properties

While the exemption from taxation of certain properties, in whole or in part, constitutes an indirect subsidy to such institutions by the taxpayers, and also has the effect of narrowing the tax base, we recognize it as a common feature of municipal assessment and tax legislation in Canada and in the United States. We would point out, however, that in Western Canada, such exemption is largely optional with the municipalities, as opposed to the obligatory exemption under the tax legislation in the Eastern Provinces.

We believe that the Ontario Assessment Act should be amended to make exemption of any property from municipal taxation optional with the municipalities. We recommend further that certain types of properties, such as cemeteries which are organized as a profit-making enterprise, and incorporated charitable institutions operated for profit or gain should be removed entirely from the lists of those properties which may be considered for tax exemption.

7. Planning for Local Needs at Municipal Level

Municipal government today is increasing its capital spending at twice the rate of the total national investment and the municipal debt totals are increasing accordingly. However, pressures continue to be exerted on municipal governments in respect of local services. In the

face of restricted revenue sources this situation demands that realistic, business-like planning take place at the municipal level.

On the basis of latest figures available (1960) Ontario leads all provinces in per capita municipal expenditures. This was at a level of $132 per capita-man, woman and child. No doubt there has been an increase in this figure since then.

With a view to relieving some of these pressures, we suggest that the municipalities should seriously consider such features as:

a. While long-term borrowing will always be an essential part of municipal financing, it should not be regarded as a convenient tool to keep the current tax rate low while attempting the impossible task of satiating capital wants. Careful planning incorporating the preparation of a long-term capital budget must be made an indispensable guide to councillors on how, when and what to borrow.

b. The possibility of extending the practice of the province providing lump sum cash grants towards the cost of capital projects instead of making annual grants towards the cost of interest charges on money borrowed would relieve local authorities from some of the constant pressure to borrow.

c. While local needs are usually socially desirable, their existence does not mean that they have to be immediately or completely satisfied. Needs are insatiable; resources are limited. A central local fund, preferably at the provincial level, could be useful for financing specified essential municipal projects in any municipality, for approved works in financially weak municipalities and for approved works in time of so-called "tight" money.

d. There seems to be room for improvement in tax collection methods, particularly in rural areas. The province might well consider increasing penalties for non-payment of taxes to a rate well above current interest rates on loans. At present withholding of tax payments is one of the cheapest and easiest ways to borrow money.

e. We have noted a trend toward offering discounts for pre-payment of taxes and toward making instalments of taxes due prior to the tax rate being struck. This practice should be extended as it provides a means for the municipality to obtain funds during the financial vacuum it faces prior to the tax rate being established, and as such, reduces the necessity to resort to short-term loans.

Summary

In conclusion, we wish to point out that as a manufacturer, Canadian General Electric Company, Limited is vitally affected by taxation. Our ability to compete with foreign goods both at home and abroad depends to a great extent on the tax environment within which industry must conduct its operations. We have no wish to evade our responsibility as a taxpayer. We are seriously concerned, however, with the tendency of provinces and municipalities to discriminate against industrial and commercial taxpayers in the field of municipal taxation. This discrimination adds considerably to the costs of industry and makes competition with foreign manufacturers more difficult.

We appreciate this opportunity of bringing to your attention our views on the matters dealt with above, all of which is respectfully submitted.

Yours very truly,

C.E. Hipp

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Vice-President